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NEWS RELEASE

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PSC ACCEPTS SETTLEMENT IN COLUMBIA GAS RATE CASE *Company receives about half of original request*

FRANKFORT, Ky. (Aug. 29, 2007) – The Kentucky Public Service Commission (PSC) today accepted a settlement that grants Columbia Gas of Kentucky Inc. a 4.6 percent increase in annual revenue from natural gas base rates.

The amount of the increase is \$7.25 million - \$5.4 million less than the \$12.65 million that Columbia had requested.

Under the settlement, residential natural gas customers will see not only a change in their base rates, but also in Columbia's pricing structure.

The monthly fixed customer charge will increase from \$6.95 to \$9.30. It will no longer include the cost of delivering the first 1,000 cubic feet (mcf) of gas used each month.

The monthly fixed charge is intended to cover those costs of providing service that are independent of the amount of gas a customer uses. Columbia had been the only one of Kentucky's five major natural gas distribution companies with a fixed charge that included the delivery charge for a quantity of gas.

The settlement leaves the volume-based delivery charge unchanged. For the average residential customer, the result is a \$2.35 increase in Columbia's monthly fixed charge and a shift of the \$1.87 delivery cost for the first 1,000 cubic feet of gas to the variable part of the bill, for an increase of \$4.22 per month.

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The actual cost of the gas itself is, by federal law, unregulated and fluctuates with market conditions. The wholesale cost of natural gas is passed on to customers on a dollar-for-dollar basis, with no profit for the gas company. The wholesale cost of natural gas has nearly doubled since 2003.

Today's order also incorporates an adjustment to reflect Columbia's expected gas cost.

Columbia is one of five major local natural gas distribution companies in Kentucky. It serves about 144,000 customers in 33 counties in central and eastern Kentucky.

Under the settlement, which was negotiated by Columbia, the Kentucky Office of Attorney General, the Lexington-Fayette Urban County Government, the Kentucky Industrial Utility Customers Inc. and Interstate Gas Supply Inc., a gas marketer participating in the Columbia Choice customer choice program, the new rates take effect today.

Other aspects of the settlement, which the PSC accepted in an order issued today, include:

- A commitment by Columbia to announce soon whether it intends to continue the Columbia Choice program beyond the current expiration date of March 31, 2009.
- An agreement on the accounting treatment for costs associated with Columbia's outsourcing of its customer call center.
- An agreement that the rate of return on equity would be 10.5 percent.

Columbia's last rate case, which was concluded in December 2002, resulted in a \$7.8 million decrease in annual operating revenue.

Today's order, as well as other case documents and videos of hearings in the case, can be found on the PSC Web site, which is psc.ky.gov. The case number is 2007-00008.

The PSC is an independent agency attached for administrative purposes to the Department of Public Protection in the Environmental and Public Protection Cabinet. It regulates more than 1,500 gas, water, sewer, electric and telecommunication utilities operating in the commonwealth of Kentucky and has approximately 110 employees.

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RATE CHART FOLLOWS

COLUMBIA GAS RATES

All numbers based on an “average” customer using an average of 6,000 cubic feet of gas per month (72,000 cubic feet per year) and the wholesale gas cost as of 8/29/2007

	As of 8-28-07	Rate requested by Columbia	Rate approved by PSC (in effect 8-29-07)
Customer charge	\$6.95	\$12.75	\$9.30
Gas delivery charge	\$9.36 (\$1.872/mcf) (for 5 mcf)	\$10.94 (\$1.824/mcf) (for 6 mcf)	\$11.23 (\$1.872/mcf) (for 6 mcf)
Energy assistance program charge	\$0.057/mcf \$0.35 (for 6 mcf)	\$0.057/mcf \$0.35 (for 6 mcf)	\$0.057/mcf \$0.35 (for 6 mcf)
Research & development Rider	\$0.01/mcf \$0.06 (for 6 mcf)	\$0.01/mcf \$0.06 (for 6 mcf)	\$0.01/mcf \$0.06 (for 6 mcf)
TOTAL LOCAL SYSTEM CHARGES	\$16.72	\$24.10	\$20.94
WHOLESALE GAS COST PER MONTH (AS OF 8/29/07) - \$10.19 per 1,000 cubic feet			
Gas cost charges at \$10.19 per mcf	\$61.14 (for 6 mcf)	\$61.14 (for 6 mcf)	\$61.14 (for 6 mcf)
Total bill – 6 mcf/mo.	\$77.86	\$85.24	\$82.08